Note: blue/yellow highlights represent glossary term and definition

CONTRACTOR RISK ASSESSMENT
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1. This Chapter is about:

This chapter establishes a common approach for the development and implementation of contractor risk assessment to include a description of the relationship between the Performance Based Assessment Model (PBAM) and surveillance plans in a Contract Administration Services (CAS) environment. The chapter defines the framework for contractor risk assessment using the PBAM and contractor risk handling using surveillance plans in the postaward phase.

2. We do this because:

A. DCMC CAO contractor risk assessment is done through the use of the PBAM (#PBAM Users Guide#) that allows CAOs to gain overall insight into the effectiveness and efficiency of contractor management systems and processes. DCMC Contract Administration Offices (CAOs) perform day-to-day surveillance of support business and technical processes deployed by a defense contractor in executing contract terms and conditions. The surveillance plan is the DCMC contractor risk handling method used to mitigate risk and monitor performance, schedule and cost at a process level.

B. The Performance Based Assessment Model (PBAM) is the DCMC contractor risk assessment tool to evaluate contractor management systems based on two primary components: inherent product/process characteristics and contractor performance attributes. The PBAM risk assessment addresses three broad categories: End Product Performance, Schedule, and Cost. Each of these three categories has a number of elements and sub-elements. The PBAM risk assessment process includes: identifying the applicable inherent product/process characteristics; analyzing of contractor and Government data; determining a roll-up risk rating; and documenting all stages of the process. The PBAM documentation and the contractor risk rating are used as inputs in developing surveillance plans

C. Surveillance plans are the DCMC risk handling method used to mitigate risk associated with key product characteristics and/or key processes associated with specific functional chapters. #(LINKS TO FUNCTIONAL CHAPTER – IDENTIFCATION OF KEY PRODUCT CHARACTERISTICS and/or KEY PROCESSES).# The surveillance plan is used as an input to DCMC risk monitoring. DCMC risk monitoring is composed of evaluating and tracking key product characteristics and/or key processes, measuring results and analyzing data . The risk monitoring output is used to effect continuous improvement in management systems and processes and to update or modify previous PBAM results.

D. The PBAM risk assessment and surveillance plans influence the DCMC top level metrics of Right Advice, Right Time, Right Price, Right Item, and Right Talent by focusing PBAM assessment results and risk handling of key product characteristics and/or key processes associated with functional chapters.

3. DCMC Policy:

A. CAO personnel shall document and implement surveillance plans that address the following: review of contract/customer requirements, determination of necessary functional resources, identification of key product characteristics and/or key processes, classification of risk (low, moderate, high) associated with key product characteristics and/or key processes, adjustment of surveillance activity, and documentation of surveillance actions and data analysis. Integration of functional relationships shall be an essential aspect of surveillance plans. PBAM results provide an initial baseline and shall be used as an input when developing the surveillance plan.

B. The level of detail, scope, and integration of functional and/or program surveillance plans shall vary depending on the size of the contractor and the acquisition complexity and product criticality. Functional surveillance is associated with systems and processes applicable to all operations within a contractor facility and contract terms, conditions, and requirements related to specific functional areas. Program surveillance is typically associated with major weapon system acquisitions requiring surveillance on a specific program at a contractor facility, in support of a Program Management Office. Maximum flexibility shall be used in tailoring these surveillance plans to the differing work and operating environments, i.e., program managed, individual contracts, contractor facility, or contract unique requirements.. For example, for a plant CAO, the surveillance plan may be a program specific plan that addresses unique program requirements, that also includes various functional systems surveillance plans applicable to all contracts. For a geographic CAO, a surveillance plan template may be used to address different contractors, providing the framework is tailored to describe the specific key product characteristics and/or key processes unique to each contractor.

C. When developing surveillance plans, #PROCAS# techniques shall be used to improve overall contract performance, and an #Integrated Product Team (IPT)# approach shall be used to develop, implement, and maintain CAO surveillance plans.

4. The process and who is responsible:

A. Process Inputs:

1) Contract, Purchase Order and Modifications
2) Memorandum of Agreement (MOA), Quality Assurance Letter of Instruction (QALI), Letter of Delegation (LoD)
3) Federal Acquisition Regulation/Defense Acquisition Regulation Supplement
4) Performance Based Assessment Model (PBAM) Users Guide
5) Performance Based Business Environment (PBBE) Guidelines
6) Contractor policies, procedures, standards, and data (e.g., minutes, records of reviews and audits, results of inspections and tests, corrective actions, etc.)
7) Information obtained by attending formal/informal reviews
8) Customer feedback

9) DLAD 5000.4: (Functional chapters – Surveillance Plans)

a) 2.1.1 Systems Planning, Research, Development & Engineering
b) 2.1.2 Test and Evaluation Management
c) 2.1.3 Software Development Surveillance
d) 2.2.1 Product and Manufacturing Assurance
e) 2.2.2 Packaging Management Program
f) 2.3.1 Configuration Management
g) 2.3.2 Parts Control Program
h) 2.3.3 Value Engineering
i) 2.3.4 Technical Data
j) 2.4.4 ILS
k) 3.1.2 Earned Value Management System
l) 4.5.2 Progress Payments based on Costs
m) 4.5.3 Performance Based Payments
n) 4.7.3 Property Control System Analysis
o) 5.1.4 Program Integration

10) DLAD 5000.4, 6.1.1, Contract Receipt, Review and Postaward

B. Sub-Processes:

1) CAO Management Responsibility
2) Contract/Customer requirements
3) Contractor Risk management System
   a) PBAM
   b) Surveillance Plans
      (1) Risk handling options
      (2) Risk monitoring
4) Adjusting Surveillance

C. Process Mechanisms:

1) Functional personnel
2) Integrated Product Teams (IPTs) (as applicable)
3) Contractor documentation, products/processes, metrics and data
4) Past performance information
5) Process Oriented Contract Administration Services (PROCAS)
6) Inspection/audit results
7) Data analysis
8) Electronic tools

D. Process Controls:

1) Contractual Terms and Conditions
2) Customer requirements
3) CAO management review
4) Unit self-assessment (USA)
5) Internal Operations Assessment (IOA)

E. Process Flowchart:

Refer to Process Flowchart Diagram

F. Who does what and when they do it:

1) CAO Management Responsibility

a) CAO Management shall assure applicable functional surveillance plans are developed and implemented for each contractor at any given location regardless of the complexity or simplicity of the acquisition. CAO management shall assure DCMC risk monitoring and data analysis are used to update or modify previous PBAM results.

b) CAO Team supervisors shall mitigate duplicative surveillance activities by ensuring related DLAD 5000.4 (See Process inputs) surveillance activities are integrated, as applicable. CAO Team Supervisors shall regularly evaluate how assigned personnel perform surveillance. As a minimum, these evaluations shall verify how timely and effectively assigned CAO personnel accomplish the work outlined in this chapter addressing the following essential elements:

- **Identifying contract/customer requirements**
- **Applying the PBAM risk assessment**
- **Developing a surveillance plan (Risk Handling)**
- **Listing key product characteristics and/or key processes (refer to Functional Chapters)**
- **Systematically tracking and evaluating the surveillance actions (Risk Monitoring)**
- **Analyzing data to effect continuous improvement**
- **Adjusting surveillance and updating PBAM risk assessment**

2) Contract/Customer Requirements

a) CAO personnel shall review the contract along with any other customer guidance or direction by MOAs, QALIs, LODs, and Customer Priority List (CPL) to gain a clear understanding of customer needs and expectations. (#Chapter 6.1.1, Contract Receipt, Review and Postaward). Documentation of contract/customer requirements reviews by differing functional skills are informal working files and shall be retained until contract performance is complete.

b) During the course of surveillance activities, if CAO personnel become aware environmentally damaging materials are being used, they shall ask the contractor if less damaging alternatives exist. If these hazardous materials are contractually

required and less hazardous alternatives exist, CAO personnel shall request the ACO advise the PCO to notify the appropriate Specification Preparing Activity of less damaging alternatives. DCMC requests to the ACO shall be distributed to the District Environmental Manager.

3) Contractor Risk Management System

a) Risk Assessment: PBAM is the DCMC risk assessment and shall be used to assess the risk of inherent product/process characteristics and contractor performance attributes. PBAM risk assessments are classified as low, moderate, or high, and represent an overall risk rating for a contractor.

b) Risk Handling: Surveillance plan risk handling shall be documented and executed on all contractors, including those initially classified as low risk under PBAM. CAO personnel shall identify in the surveillance plan the key product characteristics and or key process specific requirements applicable to a product or a process in the appropriate functional area. Typically a key product characteristic and/or a key process characteristic is an attribute of a product or a lower-level process associated with a contract deliverable or management system. A characteristic or process is identified as "key" when it can have a significantly adverse effect on contract, performance, cost, or schedule requirements. **CAO personnel shall use all available sources of data to facilitate the identification of key product characteristics and key processes, including the contractor's systems, and the contractor's and/or buying office's identification of key product characteristics and/or key processes. The PBAM risk rating methodology shall be used to classify contractor key product and/or key processes as low (1), moderate (2), or high (3) risk.**

c) Surveillance plan risk handling options shall reflect the PROCAS methodology. The plan shall also document the frequency and results of the risk handling techniques selected to mitigate the contractor risk areas on the program and/or contract requirements. Some examples of different risk handling options for key product characteristics and/or key processes are outlined below:

- Low Risk: Intensity and frequency of surveillance may be minimal using periodic reviews of Government and contractor data (e.g., EVMS, delivery performance history, process control data, cost control data, excellent audit data).

- Moderate Risk: Intensity and frequency of surveillance may include establishment of scheduled process, systems, or product audits, partial or full process proofing, data review, root cause analysis, and corrective action, statistical sampling, etc.

- High Risk: Immediate and intensive surveillance should occur. These actions may include establishment of intensive process, systems, or product audits, partial or full process proofing, data review, root cause analysis, and corrective action, statistical sampling, etc.

d) Risk Monitoring: DCMC risk handling shall track, evaluate, and document the performance of risk handling actions against program results to determine if program/contract requirements are being met, or new risk handling options are needed.

e) Adjusting Surveillance: DCMC data, customer information, contractor, other second and third party data shall be used to adjust risk handling and monitoring surveillance. Adverse performance data shall result in corrective action measures and an associated increase in risk handling surveillance(e.g., frequency, product audits). Trend analysis of system and process performance indicating low risk, shall result in a decrease of risk handling surveillance(e.g., frequency, data analysis). The data analysis results shall be used update/modify the previous PBAM assessment.

4) Alternate Surveillance Methods

a) Certificate of Conformance, (CoC) FAR 52.246-15
CoC (http://farsite.hill.af.mil/reghtml/far/52_246.htm) is a CAO alternative means of accomplishing source inspection because the contractor's reputation or past performance shall likely result in acceptable supplies or services and any defective work would be replaced, corrected or repaired without contest.

b) Special Requirements for the Acquisition of Commercial, FAR 52.212-4
(http://farsite.hill.af.mil/reghtml/far/52_000.htm#E11E873)
Government in-process surveillance and inspection of commercial items shall be limited to the level of surveillance and inspection performed by commercial market customers unless an addendum to the contract provides otherwise (http://farsite.hill.sf.mil/reghtml/far/12.htm#E10E336). DCMC surveillance plans applicable to commercial items shall be limited to inspection of the completed items as presented to the Government for final acceptance unless:

- **In-process surveillance and inspection is performed by commercial market customers on the same or equivalent commercial market items**
- **In-process inspection and surveillance is allowed by an addendum to the contract**

c) Contractor Self-Oversight (CSO) is an alternative means of accomplishing the surveillance tasks identified in the surveillance plan. Under CSO, the Government multi-functional surveillance is performed by contractor personnel. CSO may be applied to a single contractor process, multiple processes, or all tasks outlined in the surveillance plan. CSO may not include formal acceptance (e.g., execution of the DD Form 250) or surveillance of flight critical/safety of flight characteristics.

The CSO tool shall only be used when the CAO and the customer(s) have confidence in a contractor's ability to provide the necessary surveillance, CSO will permit a measurable reduction of direct DCMC in-plant surveillance and no cost increase for the Government is expected to result. CAOs may elect to use CSO in lieu of direct DCMC oversight only when all of the following conditions are met:

I. The CAO, contractor, and all affected customers (including the buying, Program Management, and Systems Program Offices, as applicable) agree to use CSO. #Management Councils# are the correct forum for review and consideration of CSO proposals. DCMC personnel assigned responsibility for surveillance are responsible for reviewing and determining the adequacy of the contractor's self-oversight plan and for coordinating the plan with the Management Council. However, final approval of CSO should be reserved to the Government.

II. The Government and the contractor execute a memorandum of agreement (MOA) that is reviewed by legal counsel, and as a minimum contains the following:

III. Identification and schedule of the surveillance or oversight tasks to be performed by the contractor.

IV. Identification of the contractor personnel who will perform the surveillance tasks and their qualifications.

V. Agreement regarding performance standards that must be met to continue participation in CSO. The CAO may, in coordination with the customer, unilaterally discontinue CSO if there is poor performance by the contractor.

VI. Details regarding how the CAO and the contractor will interact on CSO activities.

VII. Identification of records created, maintained, and dispositioned.

VIII. Language addressing how both parties can pursue changes/withdraw from the MOA. An expiration date not to exceed one year, at which time the MOA may be renewed. The MOA shall contain a statement that:

"The parties acknowledge and understand that this CSO agreement does not modify or change the terms and conditions of any contract(s). This CSO agreement shall not be used to alter, supplement, or deviate from the terms and conditions of the contract(s) and the legal rights and obligations of the parties set forth in those contracts."

IX. The Contracting Officer must execute any change to the contract(s) in writing. The CAO surveillance plans are modified to indicate which process/product, surveillance tasks, or functions will be subject to CSO, and how the CAO will monitor contractor activities to ensure they are providing the necessary assurance of contract compliance, e.g. periodic reviews of work products, analysis of contractor audits, etc.

5. **Additional process information:**
    A. DCMC Business Plan
    B. DCMC Metrics Guidebook
    C. AMS Process Improvement Network (PIN)
    D. IOA Findings
    E. Function-specific chapters.

6. **Competencies and certifications required to execute this process:** See function-specific chapters.

7. **PLAS codes for this process:** See function-specific chapters

8. **The DCMC Headquarters/District points of contact:** See function-specific chapters.

GLOSSARY

Surveillance plan: A surveillance plan describes the DCMC methods and actions for performing program or functional surveillance at a contractor facility. The sophistication and length of the plan is contingent on the volume of business at a contractor facility or the complexity of a specific acquisition, typically a program managed contract with a supporting memorandum of agreement. A small contractor with intermittent business may require a minimum of production and quality surveillance. Actions may be limited to validating schedule commitments and final inspection or testing.

Program surveillance plan: A program surveillance plan reflects the specific or unique requirements of a Program Office and the DCMC surveillance/support is expressed in a memorandum of agreement. Functional team members (IPT) may support a program surveillance plan with a functional surveillance plan.

Functional surveillance plan: A documented plan addressing systems, processes and/or contract technical requirements. The type of surveillance performed by various functional team members is commonly referred to as system and/or contract surveillance.

Inherent product/process characteristics are those which can be significant contributors to the success of any program, independent of contractor performance.

Key processes derive directly from key product characteristics. Key processes are used to produce or support a product's key characterisics. Every process has an output, or a product. Key product elements, features, or characteristics, are those which can have a significant influence on the product's use or ability to meet its contract, performance, cost, or schedule requirements. These characteristics should be measurable and will highlight what process areas should be the focus of control efforts (and variability reduction efforts in the case of engineering and manufacturing).